Paper proposal to the conference "Old and new growth theories," to be held in Pisa, Italy, on October 5-7, 2001.

Effective demand and growth: an analysis of the alternative closures of Keynesian models

Nelson H. Barbosa-Filho[1]

The paper presents a Keynesian one-sector model where investment and autonomous expenditures determine the growth rate of income. The analysis starts with the dynamics of demand-led growth and the possible interactions between investment and autonomous expenditures. Since by definition the growth rate of investment determines the long-run growth rate of capital, the paper uses the long-run relation between demand growth, multifactor productivity growth, and labor-force growth to analyze the alternative Keynesian closures of the supply side. It is shown how a partially endogenous supply of labor and a partially endogenous multifactor productivity growth may relax the supply-constraint on demand-led growth, as well as how changes in the average propensity to save may accommodate investment when the economy reaches its maximum growth rate. Since nothing prevents the functional distribution of income from changing before the economy reaches it maximum growth rate, the paper presents a two-species model for the labor share of income and the income-capital ratio to illustrate how demand-led growth impacts on class conflict and economic activity.

[1] Center for Economic Policy Analysis, New School University, 80 Fifth Av., Fifth Floor, New York, NY, 10011-8002. Tel.: (212) 229-5901, fax: (212) 229-5903. E-mail address: barbon01@newschool.edu.